Case Study #1: Financial Decision Making in College Sport

Introduction:

Athletic directors (AD) and those in a university's athletic department often must make decisions that have significant financial implications, for both short-term and long-term impacts. While the general public's notion may be that athletic departments tend to turn an annual profit, this is simply not true. Thus, the decisions made by an AD and their personnel can have deeper financial impact than most realize. The current case study examines how using various financial equations can help ADs arrive at the best possible decision in a given situation. It is important to note that being able to defend a decision is also needed when addressing both the public and the higher-ups at a university.

Relevant Bios:

Jane Matthews, Athletic Director of State University (SU)

Jane Matthews has served as SU's athletic director for 12 years after serving in the associate AD role for five years. Before arriving at SU, Matthews was assistant AD at a smaller university for 10 years and oversaw that athletic department's budgeting and financials. Prior to her time at SU and during her time as associate AD at SU, Matthews gained a reputation for her financial literacy skills related to college athletics. This included her ability to accurately determine exact dollars and cents in financial based dealings to better inform each athletic department's decision-making. Her knack for breaking down financial data to maximize each decision's financial impact was especially valuable at her previous, smaller university, and was a key factor in her earning both the assistant AD and head AD positions at SU. Matthews has overseen significant growth of both popularity and success of SU's athletic teams during her 17 years in the athletic department. Although she is proud of the growth and excited for the future of SU athletics, she is also realizing that it may soon be time for her to retire as she has accomplished all of her own goals and has several associate ADs of her own whom she has developed to become ADs in their own careers. She contemplates reaching a 30-year career as she faces the major financial decisions before her, knowing she is unlikely to see their long-term impacts when she retires.

Dr. Mary Jones, President at State University (SU)

Dr. Mary Jones earned SU's presidency position 5 years ago after being Vice-Provost at a similarly sized university across the US for 4 years. Jones had earned her PhD from SU before being hired in a faculty role and eventually working her way up to a Dean position of SU's College of Education. So, although Jones left to become a Vice-Provost at a different university, she is quite familiar with SU from her previous experience. Jones knows of Matthews as their time has overlapped at SU both prior to and since Jones returned to SU. The two have had a good working relationship since Jones returned as President. Dr. Jones holds Matthews in high regard for her financial-based approach to making decisions in the athletic department, and as a sport fan herself, Dr. Jones has been equally thrilled as any other SU fan at the university's rise to prominence. Through their various conversations in the past year, Dr. Jones has realized that Matthews has brought up retirement more often than before. She also recognizes the current landscape of SU's football stadium rights deal and the other major funding push to either build new facilities or renovate the current ones, and wonders if Matthews can keep the long-term vision in mind when making these decisions given how close she is to retirement. Dr. Jones knows how fast 3

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years can go by on a college campus and how difficult it can be for someone in Matthews' career position to weigh retiring having accomplished her own stated goals of seeing new soccer and softball facilities being built before she retires versus making sure the best decision for SU is made, regardless of the timeline.

Dr. Craig Crimm, State University (SU) Board of Trustees Representative

Dr. Craig Crimm has only served on the Board of Trustees of SU for 2 years. However, he spent a majority of his career at SU moving through both faculty and administration ranks while maintaining a consulting business on the side, which allowed him to keep his practical decision-making skills sharp while his academic career required his teaching and managerial skills. Crimm is only a representative of the Board, so his own final say will not weigh as significantly as Dr. Jones' or Matthews' let alone against the other Trustees. However, Dr. Crimm has seen SU go through similar periods as the one they are witnessing now, where recent alumni from academics and athletics go on to achieve notoriety, and that trickles to SU's reputation while leading to an increase in applications and expectations for continued athletic success. He knows that this type of situation has typically been in a cycle and is cautious about being too aggressive in case the current prominence and spotlight cannot be sustained.

GreenTech, Startup Company founded by an Anonymous SU Alumni and would-be donor

GreenTech is an emerging leading company in the sustainable technologies industry. The company was founded by an SU alumnus who credits their education and experience at SU for inspiring the idea behind GreenTech. As such, they are fond of SU and have a strong desire to merge the two entities in a naming rights deal; the founder believes this would be a win-win situation for both their company and SU. The founder believes this given that both SU and GreenTech have received high praise for their respective performances in recent years while also seemingly achieving high performance through ethical means. Neither entity has encountered any scandals, although given the current state of NCAA athletics, some are cautious that it is only a matter of time before SU comes under fire as other similar universities have. However, at the current time there is no evidence suggesting such a scenario is brewing at SU.

Scenario:

Jane Matthews is the AD at State University (SU), a flagship university in the state and the US that competes at the National Collegiate Athletic Association (NCAA) Division I FBS level. Many alumni from SU have gone on to prominent roles in business and politics, and several former student-athletes have also gone on to play professionally in their respective sport. SU has seen an increase in application and enrollment numbers in the last 5 years given the reputation of both the academics and athletics on campus. With such notoriety on SU, Matthews believes that the time is right to solicit a donor for a groundbreaking donation in hopes of either renovating or building two new athletic facilities: a soccer stadium for both of SU's soccer teams to play at and a softball stadium. Depending on the exact funds and timing of the funds being usable, Matthews will decide whether to renovate either or both, or use the funds to build new stadiums altogether. Lastly, the naming rights deal to SU's football stadium is about to expire and she believes that a new deal can bring in another lucrative financial sum. Her final decisions must be conferred with SU's president, Dr. Mary Jones.

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SU's board of trustees has sent Dr. Craig Crimm to facilitate a meeting between Matthews and Dr. Jones to assess two recent proposals that have come across both of their desks. The board has stated that it wants a decision on the two proposals made during this meeting as their deadline to assess the upcoming fiscal year's budget is near. One proposal has two different donation options from the same donor which would be allocated to renovating or building new stadiums for soccer and softball. The first option offers a larger lump sum of money up front whereas the second option offers a consistent annual donation of $1 million for the next 10 years at a 5% discount rate. The larger lump sum of $5 million would be enough to build two new stadiums, one each for soccer and softball; whereas the 10-year annual donation would only initially cover the cost of renovations over a 2-year period, before the remaining 8 years of donations could be combined to build new stadiums further in the future at the end of the 10-year deal.

The second proposal also has two options pertaining to the football stadium's naming rights from a different donor. The first option offers an initial lump sum payment of $5 million for the naming rights and then another payment of $7 million to be made in five-years' time at a 7% discount rate, with the total deal spanning 12 years. The donor has stated they are willing to agree to another deal after the 12-year term if the deal proves to be mutually beneficial, but they also have included a mandatory "out-clause" of the deal before the second payment is to be made. This clause is dependent on several factors, all related to ensuring that SU faces no unethical misconduct charges in its athletic programs of any kind related to recruiting violations, academic standards, or any other incidents that could merit investigation and punishment. The second option offers annual payments of $1.5 million for the entirety of the deal at a 7% discount rate; with an initial 8 years agreed upon with an option to walk away from the deal after 8 years if SU is unable to sustain its growth and reputation during that time. The donor is willing to renegotiate after the 8-year deal. The donor also wants some protection on a longer guaranteed investment as the name of the stadium would be their tech startup, GreenTech. The donor does not want potential bad press from any scandals or downgrade in SU's reputation to hurt their company's brand and reputation.

Task:

Take on the role of Matthews as AD for SU. During the meeting with Dr. Jones and Dr. Crimm, you ask them both to give you time to run the numbers of the given proposals and each option within them before you decide which deal to take. Keep in mind that the Board needs a decision quickly, so walking away from these offers and not accepting any of them is not an option. You are confident that your previous work and discussions with these alumni donors has resulted in these being their best offers, so you know the proposals in front of you were offered in good faith. Jones and Crimm step out of the meeting to give you time to perform your financial equation work, but they have asked you to have your decision ready when they step back in. Given the information provided in each proposal's option, you must calculate which deals are the best to take in the current day's money. You must also decide for yourself whether you wish to choose the deals that will net you the most amount of money on your record before you retire in 3 years or the deals that offer the most amount of money for SU over the span of each deal. Use the appropriate financial equation to determine which option in each proposal is best.

Recall:

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Present Value of Money Equation and Future Value of Money Equation

$PV = FV / (1 + \text{Discount Rate})^{\text{Time}}$

$FV = PV \times (1 + \text{Discount Rate})^{\text{Time}}$

Present Value of Annuities Equation

$PV = \text{Cash Flow} \{1 – [1 / (1 + \text{Discount Rate})^{\text{Time}}]\} / \text{Discount Rate}$

Discussion Questions:

1. Which of the options in each proposal offered the largest amount of money in present value?
2. Given the factors described throughout the case pertaining to Matthews, which options in each proposal did you decide to take? Why?
3. What are potential pros and cons of each option within each proposal?
4. Why is it important to be able to deal with financial decisions in a consistent manner such as present-day value?

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